



WHONNOCK INDUSTRIES LIMITED



Annual Report / 1971

COVER PHOTOS:

Top left - 3 photos of our
Interior Operation.

Top right - our Whonnock mill.

Bottom - 2 photos at our Weldco plant.

WHONNOCK INDUSTRIES LIMITED



Officers

R. A. C. McColl, *Chairman*
C. A. Johnson, *President*
H. Kneteman, *Executive Vice-President*
T. Evans Lougheed, *Vice-President*
Joseph E. Villiers, *Secretary-Treasurer*

Directors

C. B. Delbridge, Vancouver, B.C.
Arthur Holding, Chase, B.C.
C. A. Johnson, Vancouver, B.C.
H. Kneteman, Vancouver, B.C.
T. Evans Lougheed, Penticton, B.C.
R. A. C. McColl, Vancouver, B.C.

Auditors

Touche Ross & Co., Vancouver, B.C.

Transfer Agent

The Canada Trust Company, Vancouver, B.C.

*The Annual Meeting of
the Company will be held on
March 17, 1972 at 10:00 a.m. in the
Tudor Room, Hotel Georgia,
801 West Georgia St., Vancouver, B.C.*

*HEAD OFFICE and REGISTERED OFFICE
655 - Two Bentall Centre, Vancouver 1, B.C.*

Earnings for the year 1971 started slowly because of depressed lumber prices. The second half improved however providing excellent results for the Company due to the increase in lumber prices and the earnings of your Company's acquisitions during the year. The Company's Consolidated Sales amounted to \$14,933,000 as compared to \$10,125,000 in 1970 and the Consolidated Net Income was \$975,597 or \$1.78 per share as compared to \$493,901 or \$1.06 per share in 1970.

The Company completed construction of a modern high speed small wood mill at Adams Lake in November 1971. We are extremely optimistic that this new sawmill will contribute substantially to the overall earnings for 1972.

Weldco Limited, acquired in March 1971, has had a very satisfactory year and is expanding its product line which should result in a substantial increase in sales for 1972.

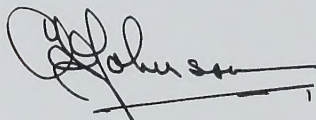
Construction of a modern high speed small wood mill is underway at Whonnock, B.C. Completion date is scheduled for September 1972. This new mill will be capable of cutting 30,000,000 board feet of lumber

per year and will substantially increase the overall efficiency and productivity of the present Whonnock Mill.

Over the past several years, we have worked to build a strong organization capable of adapting rapidly to the improvements in technology. We have decentralized our operations. We are fortunate that in each of our acquisitions we have highly competent management and staff. We would like to thank all of our employees for their loyalty and support during 1971.

The market for lumber and shakes and shingles has strengthened considerably over a year ago and there is every indication that the favourable trends which developed during the latter half of 1971 will continue through the coming year.

ON BEHALF OF THE BOARD



C. A. JOHNSON
President

PRESIDENT'S REPORT



A HISTORY

On May 6, 1963, the Company was incorporated to operate a lumber mill founded in the 1930's at our present mill site at Whonnock, British Columbia. Since June, 1963, the Company and its subsidiary, Whonnock Lumber Company Limited, have been logging, sawmilling and producing shakes and shingles at Whonnock and Stave Lake, approximately fifty miles east of Vancouver on the north side of the Fraser River.

In a Company re-organization in July of 1971 our name became Whonnock Industries Limited, and operating assets were sold to a newly-created subsidiary, Whonnock Lumber Company Limited (the COASTAL OPERATIONS).

Recent years have seen the Company expand and diversify through acquisition of other firms. In August, 1966, we acquired all of the shares of Wolco Marine Limited which owned and chartered a lumber barge and two chip barges.

In 1971 management decided that, because operations were confined to the coastal region of British Columbia, acquisition of a lumber company operation in the interior of the province would broaden and strengthen the Company's base. Subsequently, on April 1, 1971, the Company acquired all of the shares of Holding Forest Products Ltd., Holding Lumber Company Limited and Adams Lake Sales Co. Ltd. (collectively the INTERIOR OPERATIONS) based at Adams Lake, B.C.

On March 1, 1971, the Company purchased all of the shares of Weldco Limited (Weldco) in Vancouver, manufacturer of heavy duty equipment used primarily in the forest industry.



COASTAL OPERATIONS



The Coastal Operations are located at Whonnock and Stave Lake, where we operate a forty-foot sawmill capable of meeting all lumber specifications of the export market, and a shake and shingle mill. Now under construction at the Whonnock site is a new sawmill designed to process small logs; this will allow more efficient use of timber resources by increasing production capacity and recovery from logs through segregation according to size. Completion of the new sawmill is scheduled for September of this year.

Last year the operations produced 63,000,000 board feet of lumber and 96,468 squares of shakes and shingles. The new sawmill is expected to increase annual production capacity to about 100 million board feet.

Lumber produced by the Coastal Operations is marketed through Seaboard Lumber Sales Company Limited, a marketing organization of which the Company is a member. Sales primarily are seaborne to

export markets including Japan, the United Kingdom, Australia and the Atlantic Coast of the United States. Shakes and shingles produced at Stave Lake are sold by Whonnock mainly into the South-western United States; wood chips from the sawmill operation are exported to the United States.

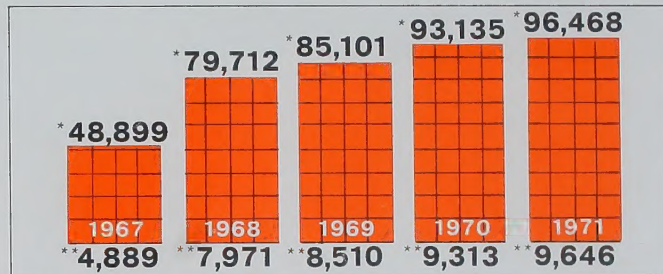
The Coastal Operations employ approximately 330 personnel; 100 of these are employed by independent logging contractors — 80% of all employees are covered by a collective agreement with the International Woodworkers of America. The current agreement expires June 15, 1972.

Raw material is obtained through licences to cut timber in the Dewdney and Vancouver Public Sustained Yield Units with an allowable annual cut of 8,722,000 cu. ft., or about 48,843,000 board feet. In addition, Whonnock holds 21,500,000 cu. ft., or about 120,400,000 board feet by way of timber berth or special rights to cut.

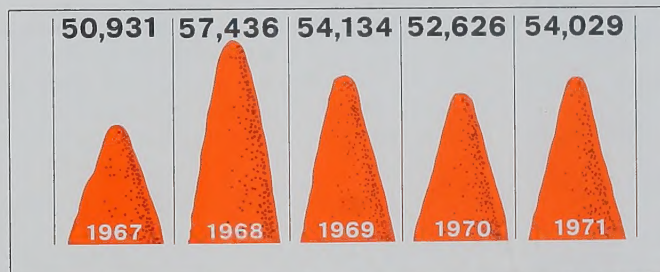
PRODUCTION FOR THE COASTAL OPERATIONS FOR THE FIVE YEARS ENDED NOVEMBER 30, 1971



LUMBER in 1,000 board feet



SHAKES & SHINGLES in squares*
in 1,000 board feet **



WOOD CHIPS in units

Unit equals 200 cubic feet of green wood chips.

INTERIOR OPERATIONS

The Interior Operations have been active since the early 1940's at the present Adams Lake site 35 miles east of Kamloops, British Columbia.

The Interior Operations consist of a twenty-foot sawmill and a new high-speed small wood sawmill completed last November to replace an obsolescent scragg mill. Management expects that the two sawmills will produce approximately 65,000,000 board feet in the first year of combined operation in the 1972 fiscal year.

Lumber produced by the Interior Operations is sold through independent lumber brokers into Canadian and United States markets. Wood chip production is sold to a pulp mill at Kamloops under a long-term contract.

Interior Operations employ approximately 260 non-union personnel, including 65 employed by independent logging contractors.

Raw material is obtained through licences held to cut Crown timber in the Adams and Niskonlith Public Sustained Yield Units;

allowable annual cut is 9,261,000 cu. ft., or about 51,800,000 board feet. The Company expects that additional allowable cut of 3,687,000 cu. ft. (or 20,600,000 board feet) will be granted. Interior Operations also have cutting rights to 13,520,000 cu. ft., or approximately 75,700,000 board feet of standing timber on a timber berth. Management is confident that timber resources of the Interior Operations are sufficient to permit operation at capacity on a sustained basis.

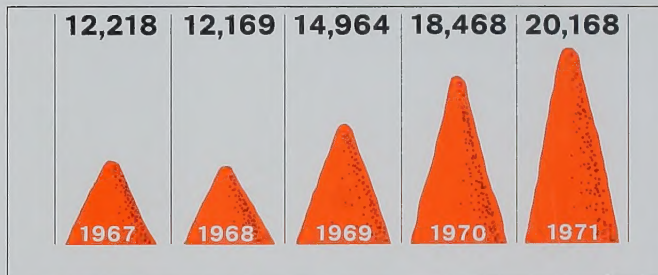
The new small wood sawmill came into production in November, 1971 with an annual rated capacity of 30,000,000 board feet increasing total annual production capacity to 65,000,000 board feet.





LUMBER in 1,000 board feet

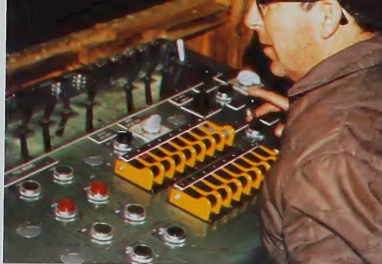
Production of the Interior Operations for the four years ended December 31, 1970, and for the eleven-month period ended November 30, 1971:



WOOD CHIPS in units

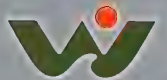
Unit equals 200 cubic feet of green wood chips.

photos of our
Interior Operation.





WELDCO



Weldco has been manufacturing heavy duty equipment at its present location in Vancouver since the mid-1940's. It manufactures hydraulic log grapples, chip and gravel buckets, side shifter for forklift trucks, bulldozer blades, scraper blades, heel booms, paper clamps for the pulp and paper industry and cabs for mobile equipment plus numerous custom items.

Weldco is one of the largest manufacturers in its field in Western Canada; its main customers are large equipment distributors in British Columbia and Alberta.

Sales for Weldco for the five years ended November 30, 1971:

1967	\$ 504,360
1968	\$ 878,847
1969	\$1,193,618
1970	\$1,017,031
1971	\$1,160,297

Weldco employs approximately 35 highly skilled machinists, welders and cutters, all of whom are covered by a collective labour agreement with the International Association of Bridge, Structural and Ornamental Iron Workers. The agreement expires on March 31, 1973.





FUTURE BUSINESS

Management of the Company plans to strengthen its operation in an orderly manner through acquisitions in the forest industry and related fields and by expansion of its plant and production equipment.

As a result of the construction of the new small wood sawmill at Whonnock and additional cedar lumber production facilities planned for the Interior Operations, total production of lumber for 1972 is expected to increase to 130,000,000 board feet from 112,000,000 board feet in 1971. In 1973 the operations will be capable of producing 170,000,000 board feet of lumber.

A continual awareness of environmental considerations has resulted in the dismantling of the waste product burner at the Whonnock mill; it has been replaced with equipment capable of producing hog fuel for disposal to operators of power generating units. The Company intends to implement those processes in the future which will continue to improve efficient use of its timber resources consistent with environmental protection standards.

AUDITORS REPORT

The Shareholders,
Whonnock Industries Limited
(formerly Whonnock Lumber Company Limited).

We have examined the consolidated balance sheet of Whonnock Industries Limited (formerly Whonnock Lumber Company Limited) as at November 30, 1971 and the consolidated statements of income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the method of providing for depreciation and amortization as explained in Note 2 to the consolidated financial statements.

TOUCHE ROSS & CO.,
Chartered Accountants.

Vancouver, B.C.,
January 14, 1972.



WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEET as at November 30, 1971

ASSETS

	1971	1970
Current		
Cash	\$ 194,302	\$ 796
Term bank deposits	815,000	—
Trade and other accounts receivable	1,179,604	598,524
Inventories — at lower of cost and net realizable value	3,222,069	1,769,059
Prepaid expenses	15,523	12,099
	<u>5,426,498</u>	<u>2,380,478</u>
Investments — at cost	200,425	70,979
Fixed		
Property, plant and equipment — at cost — Note 1	6,192,040	1,959,163
Less: Accumulated depreciation — Note 2	3,423,944	1,053,675
	<u>2,768,096</u>	<u>905,488</u>
Timber and logging roads		
Timber — at cost	1,335,046	1,221,334
Less: Accumulated depletion	341,328	264,240
	<u>993,718</u>	<u>957,094</u>
Logging roads at cost less amortization — Note 2	582,140	275,074
	<u>1,575,858</u>	<u>1,232,168</u>
Other		
Timber sale deposits	100,290	48,529
Excess of cost of shares over net book value at acquisition less amortization — Note 1	3,814,556	—
	<u>3,914,846</u>	<u>48,529</u>
	<u>\$13,885,723</u>	<u>\$ 4,637,642</u>

On behalf of the Board:

C. A. JOHNSON, Director
R. A. C. McCOLL, Director

LIABILITIES

	1971	1970
Current		
Due to the bank — secured	\$ 507,000	\$ 115,513
Accounts payable and accrued liabilities	1,642,834	812,396
Income and logging taxes payable	477,023	158,180
Current portion of long-term debt	352,468	116,200
Contribution payable to employees' deferred profit sharing plan	294,279	—
Class A dividend payable	24,691	—
	<u>3,298,295</u>	<u>1,202,289</u>
Long-term debt, less current portion above — Note 3	3,174,648	83,176
Deferred income taxes	304,517	123,877
	<u>3,479,165</u>	<u>207,053</u>

SHAREHOLDERS' EQUITY

Share capital — Note 4		
Authorized		
3,000,000 5% cumulative redeemable first preference shares of no par value		
1,668,440 Class A common shares of no par value		
331,560 Class B convertible common shares of no par value		
Issued and fully paid		
3,000,000 5% cumulative redeemable first preference shares (1970 - Nil)	3,000,000	—
132,442 Class A common shares (1970 - Nil)		
331,560 Class B convertible common shares (1970 - 464,002)		
	<u>464,002</u>	<u>640,171</u>
	640,171	640,171
Retained earnings	3,640,171	2,588,129
	<u>7,108,263</u>	<u>3,228,300</u>
	<u>\$13,885,723</u>	<u>\$ 4,637,642</u>

The notes to the consolidated financial statements are an integral part thereof.



WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended November 30, 1971

	1971	1970
Balance at beginning of year as previously reported	\$ 2,490,093	\$ 1,996,192
Add: Adjustment of prior years' logging tax assessments refunded during the year	98,036	98,036
Balance at beginning of year as restated	2,588,129	2,094,228
Add: Net income for the year	975,597	493,901
	<u>3,563,726</u>	<u>2,588,129</u>
Less: Class A common share dividends	95,634	—
Balance at end of year — Note 4	<u>\$ 3,468,092</u>	<u>\$ 2,588,129</u>

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

Year Ended November 30, 1971

	1971	1970
Sales and other operating revenue	\$14,933,325	\$10,124,967
Production, selling and administrative expense	11,911,832	8,279,963
Remuneration of directors and senior officers ..	145,910	143,508
Depreciation, amortization and depletion— Note 2	374,944	421,122
	<u>12,432,686</u>	<u>8,844,593</u>
Operating income	2,500,639	1,280,374
Dividends and interest from investments	28,214	5,091
Gain on disposal of fixed assets	21,353	52,171
	<u>2,550,206</u>	<u>1,337,636</u>
Interest on long-term debt	136,283	20,924
Income before contribution to employees' deferred profit sharing plan and income and logging taxes	2,413,923	1,316,712
Contribution to employees' deferred profit sharing plan	294,279	293,760
Net income before income and logging taxes ..	<u>2,119,644</u>	<u>1,022,952</u>
Income and logging taxes		
Current	963,407	526,711
Deferred	180,640	2,340
	<u>1,144,047</u>	<u>529,051</u>
Net income for the year	<u>\$ 975,597</u>	<u>\$ 493,901</u>
Net income per common share — Note 5.		

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended November 30, 1971

	1971	1970
Source of funds		
Net income for the year	\$ 975,597	\$ 493,901
Add: Charges against income not requiring an outlay of funds		
Depreciation, amortization and depletion — Note 2	374,944	421,122
Deferred taxes	180,640	2,340
Employee bonuses paid by issue of 300 common shares	—	3,825
Less: Gain on disposal of fixed assets	(21,353)	(52,171)
	<u>1,509,828</u>	<u>869,017</u>
Proceeds from		
Disposals of fixed assets	61,542	59,234
Disposals of timber sale deposits	1,110	125,375
Increases in long-term debt excluding debt incurred in acquisition of subsidiaries	29,798	—
Refund of prior years' logging taxes	—	98,036
Working capital of subsidiaries at dates of acquisition — Note 1	1,728,910	—
	<u>3,331,188</u>	<u>1,151,662</u>
Application of funds		
Purchase of fixed assets, timber, timber sale deposits and investments	1,246,144	330,125
Construction of logging roads	230,868	79,820
Long-term debt repaid or currently maturing	808,528	116,097
Dividends on Class A common shares	95,634	—
	<u>2,381,174</u>	<u>526,042</u>
Increase in working capital	950,014	625,620
Working capital at beginning of year	1,178,189	552,569
Working capital at end of year	<u>\$ 2,128,203</u>	<u>\$ 1,178,189</u>

WHONNOCK INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS November 30, 1971

Note 1—Principles of Consolidation

The consolidated balance sheet of the Company as at November 30, 1971 consolidates the accounts of all its wholly-owned subsidiaries. The consolidated statement of income and expense includes the operating results of the subsidiaries since acquisition as follows:

- Wolco Marine Ltd. for 1971 and 1970.
- Weldco Limited since February 28, 1971.
- Whonnock Lumber Company Limited since April 30, 1971.
- Holding Forest Products Ltd., Holding Lumber Company Limited and Adams Lake Sales Co. Ltd. since March 31, 1971. (The Holding Group).

The excess of cost of shares in the above subsidiaries over their net book values at the dates of acquisition, amounting to \$4,295,252, has been reported as follows:

- (i) \$416,036 was added to the cost of property, plant and equipment as it was deemed to be attributable thereto. Amortization of the excess purchase price attributable to plant and equipment is provided in the depreciation policy.
- (ii) \$3,879,216 was shown as excess purchase price and is being amortized on a straight line basis over forty years and accordingly a charge of \$64,660 has been provided in the operating results.

The 1971 acquisitions were financed as follows:

- (iii) Weldco Limited for cash of \$435,000 and long-term debt of \$415,000.
- (iv) Whonnock Lumber Company Limited was incorporated during the year and on April 30, 1971 purchased all the operating assets of the Company.
- (v) The Holding Group for \$6,000,000 as follows:
 - (a) \$1,000,000 cash.
 - (b) \$2,000,000 8% Series A Bonds of Whonnock Lumber Company Limited.
 - (c) \$3,000,000 6% cumulative redeemable first preference shares without nominal or par value but with the right to exchange for Class A common shares under certain conditions.

The 1971 acquisitions resulted in the purchase of working capital in the amount of \$1,728,910 as shown in the consolidated statement of source and application of funds, made up as follows:

Purchase prices of 1971 acquisitions including legal costs \$ 6,870,202

Assets acquired	
Investments — at cost	117,292
Property, plant and equipment at net book value plus excess purchase price attributed thereto	972,991
Logging roads — at net book value	131,647
Timber sale deposits — at cost	40,146
Excess of cost of shares over net book value	3,879,216
	<u>5,141,292</u>

Working capital of subsidiaries at dates of acquisition \$ 1,728,910

Note 2—Depreciation, Amortization and Depletion

During 1971 the Company changed its method of providing for depreciation and amortization on plant, equipment and roads from the declining balance method at the maximum rates allowable under income tax regulations to the straight line method based on the estimated remaining useful lives. As a result of this change in method the depreciation and amortization expense for the year is \$185,684 less than it would have been under the former method. The effect of this change on net income after tax is an increase of \$85,470. Depletion is consistently computed on the basis of timber cut.

Note 3—Long-term Debt

	1971	1970
Term bank loan 1½% above prime bank rates —secured by a demand debenture and assets pledged as security under Section 88 of the Bank Act—repayable in annual instalments of \$200,000	\$ 1,000,000	\$ —
8% Roynat Ltd. loan	—	32,850
Timber purchase agreements at prime bank rates—current portion \$69,468 with balance repayable in annual instalments of \$6,847 including interest	112,116	166,526
5% promissory note issued on acquisition of Weldco Limited—repayable in annual instalments of \$83,000	415,000	—
8% Series A Bonds—secured by a first floating charge on the assets of Whonnock Lumber Company Limited—maturing in 1986	2,000,000	—
	<u>3,527,116</u>	<u>199,376</u>
Less: Current portion	352,468	116,200
	<u>\$ 3,174,648</u>	<u>\$ 83,176</u>

Attached to the Series A Bonds are Series A Warrants of the Company which under certain circumstances entitle the bondholder(s) to call for the redemption in whole or in part of their bonds, provided that the proceeds from such redemption will be applied on behalf of the bondholder(s) to purchase Class A common shares of the Company.

Note 4—Share Capital

During the year the Company altered and increased its authorized share capital from 2,000,000 no par value common shares consisting of 1,535,998 Class A common shares and 464,002 Class B common shares to 5,000,000 no par value

shares consisting of 3,000,000 5% cumulative redeemable first preference shares, 1,668,440 Class A common shares and 331,560 Class B common shares. The Company issued the 3,000,000 5% cumulative redeemable first preference shares in partial consideration for the acquisition of the Holding Group of companies as described in Note 1 (v). These shares may be exchanged for Class A common shares under certain conditions, but not before December 1, 1972 and/or redeemed for cash at the option of the shareholders up to a maximum of 200,000 shares per annum at their issued value commencing in the 1972 fiscal year. The cumulative dividend, amounting to \$150,000 has not yet been declared and is therefore not reflected in these financial statements.

The Class A common shares (carrying one vote per share) are entitled in priority to any dividend paid on Class B shares as to a non-cumulative dividend of 75 cents per annum. Any further dividends shall be declared in equal amounts on all common shares.

The Class B common shares (carrying ten votes per share) are convertible into Class A common shares at any time at the option of the holder, on the basis of one Class A common share for one Class B common share. During the year 132,442 Class B common shares had been converted into Class A common shares.

As at November 30, 1971, there were outstanding employee stock options to purchase 23,200 Class A common shares of the Company at \$9.00 per share in equal amounts over the years 1972 to 1976. 331,560 Class A common shares are reserved for the conversion of Class B common shares.

Maximum potential new issues of common shares, all of which would be Class A, under the various exchange, warrant and option rights existing at November 30, 1971 are as follows:

(i) Series A warrants	100,000
(ii) 5% cumulative redeemable first preference shares—Note 5.	200,000
(iii) Options	23,200

The above potential additions to issued Class A common shares have been incorporated in the calculation of fully diluted net income per share as described in Note 5.

Note 5—Net Income Per Common Share

- (i) Net income per common share—\$1.78 (1970 - \$1.06).
Net income per common share has been calculated as if all the issued and outstanding Class B common shares were converted to Class A common shares on December 1, 1970, and the net income remaining after deduction of the 5% cumulative preferred share dividend has been divided equally between all of the issued and outstanding Class A and Class B common shares resulting in \$1.78 (1970 - \$1.06) per common share.
- (ii) Fully diluted net income per common share — \$1.50.
Fully diluted net income per common share shows the effect of the maximum possible dilution on net income per share which would result if:
 - (a) All the Class B common shares had been converted to Class A common shares at the beginning of the year.

(b) All of the 5% first preference shares had been exchanged as of the date of issue, April 1, 1971.

(c) All the Warrants attached to the 8% Series A Bonds had been exercised as of the date of issue April 1, 1971, and

(d) All the outstanding share options had been exercised at the beginning of the year.

For the purposes of the exchange referred to in Note 5 (ii) (b) above, the number of Class A shares to be issued is determined by the average annual market price of the Class A shares.

Class A common shares began trading during the year and average annual market prices are not available and as a result the average market price for the month of January, 1972 of \$15.00 per Class A common share was used.

Note 6—Subsequent Event

Subsequent to November 30, 1971 the Company declared an 18.75 cent dividend for the first quarter of the 1972 fiscal year to Class A common shareholders of record February 1, 1972 and payable on February 29, 1972.





